

**COUNTY OF SAN BERNARDINO,
CALIFORNIA**

MANAGEMENT LETTER

JUNE 30, 2007



November 30, 2007

To the Board of Supervisors
Audit Committee
County of San Bernardino, California

Ladies and Gentlemen:

We have audited the basic financial statements of the County of San Bernardino (the County) for the year ended June 30, 2007 and have issued our report thereon dated November 30, 2007. In planning and performing our audit of the basic financial statements of the County, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

REVENUE CUTOFF

OBSERVATION:

In accordance with the County's Year End Closing Manual, County departments are required to prepare and submit year-end accrual packages by July 15th to the County Administrative Office (CAO). The accrual packages include worksheets listing the amount, revenue and/or object code, description of revenue or receivable, and expected date of collection. The completion of this year-end closing procedure enables the County to achieve proper cut-off for the Auditor/Controller/Recorder's (ACR) preparation and completion of the Comprehensive Annual Financial Report (CAFR).

During our examination, we noted the County received and recorded Proposition 63 revenue that pertained to fiscal year 2008. As such, an adjustment was proposed and recorded at both the governmental fund and Governmental Activities reporting level, to defer the fiscal year 2008 revenue in accordance with GASB 33. We noted the department responsible for this revenue source did not identify the misstatement as part of the year end closing procedures. We also noted Section IV of the County's Year End Closing Manual provides the necessary instructions pertaining to the accounting for deferred revenues.

RECOMMENDATION:

Although it is noted that formal written communication and training is performed on an annual basis by the ACR's office to properly provide year-end closing procedures to County departments, we recommend that the ACR implement additional procedures to ensure that material revenues are recognized in the proper period. These procedures should include the following:

- Departments should be instructed to examine revenues received prior to the end of each fiscal year to determine if those revenues pertain to the current or subsequent fiscal year to ensure proper recognition in accordance with GASB 33. Those revenue received prior to the end of each fiscal year that pertain to subsequent fiscal years not meeting the recognition criteria of GASB 33 should be deferred for financial reporting purposes in accordance with Section IV of the County's Year End Closing Manual.
- Based on the outcome of these results, document and record necessary adjustments to the financial statements.

By implementing additional procedures, material transactions requiring accrual or deferral may be identified and corrected in a timely manner to ensure the County achieve proper cut-off for the Auditor/Controller/Recorder's (ACR) preparation and completion of the Comprehensive Annual Financial Report (CAFR).

RESPONSE:

The Auditor/Controller-Recorder's Office, General Accounting Section is developing additional year-end closing instructions to assist departments in identifying advances that can be used in subsequent periods, so that they can be recorded as deferred revenue.

LANDFILL CLOSURE/POSTCLOSURE CARE LIABILITY

OBSERVATION:

Generally accepted accounting principals state that landfill closure and post closure care costs are required to be estimated and accrued over the period in which the landfill accepts solid waste. The generally accepted method of recognizing the liability requires the County to take the ratio of the landfill's total estimated capacity and the cumulative capacity used and apply the ratio to the total estimated costs, adjusted annually for inflation. During our testing of the County's landfill closure and post closure care liability estimate, we noted the County's Solid Waste Division did not properly report the total estimated closure and post closure costs when calculating the liability as of June 30, 2007.

RECOMMENDATION:

We recommend that the County implement stronger internal controls, such as management review or recalculation procedures, to ensure the completeness and accuracy of the County's landfill liability estimates recorded in the County's financial statements.

RESPONSE:

Solid Waste Division has implemented procedures to ensure the correct calculation methodology is used to compute the County's total estimated landfill closure and post closure care liability using the known total future estimated capacity as the basis. The calculations will be reviewed and verified by the division's Chief Engineer and Accountant before being submitted to the Auditor-Controller/Recorder.

STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS

YEAR-END CLOSING PROCEDURES

RECOMMENDATION:

In FY 2006, we recommended that the County establish procedures as part of year end closing to analyze "due from other fund receivables" to ensure all assets reported in trust and agency funds that pertain to other funds of the County are properly reported as such. In addition, this analysis should include secured, unsecured and supplemental property taxes, unapportioned investment income and federal and state revenues.

STATUS AS OF JUNE 30, 2007:

Implemented – We noted the County implemented additional procedures during FY 2007 that included analyzing interfund accounts. No exceptions were noted as a result of our audit of interfund transactions.

INTERFUND LOANS RECEIVABLE

RECOMMENDATION:

In FY 2006, we recommended that the County establish procedures as part of year end closing process to analyze "loan proceeds" recorded in the funds to ensure all interfund loans are properly classified and recorded in the financial statements

STATUS AS OF JUNE 30, 2007:

Implemented – We noted the County implemented additional procedures during FY 2007 that included analyzing interfund loans. No exceptions were noted as a result of our audit of interfund loans.

LANDFILL POST CLOSURE LIABILITY

RECOMMENDATION:

In FY 2006, we recommend that the County implement stronger internal controls to ensure the completeness and accuracy of the County's landfill liability estimates recorded in the County's financial statements.

STATUS AS OF JUNE 30, 2007:

Partially Implemented – While the current audit did not detect a similar adjustment noted in the FY 2006 audit, as a result of our FY 2007 audit, the County's Solid Waste Division did not properly apply the provisions of GASB 18 when calculating the liability for Closure/Post-Closure Cost. In particular the total estimated costs associated with closure and post-closure maintenance prepared by the County's engineers was not factored into the County's GASB 18 calculation. See current year management letter comment and management's response to the FY 2007 control deficiency.

RESPONSE:

As of June 30, 2007, the Solid Waste Division correctly calculated the liability for Closure/Post-Closure Cost using the understood accepted methodology of current permitted capacity as the basis. Upon clarification of GASB 18, the liability was correctly recalculated using the known total future estimated capacity as the basis

SOLID WASTE DIVISION - ACCOUNTS RECEIVABLE MANAGEMENT

RECOMMENDATION:

In FY 2005, we recommend that the Division design procedures to ensure that proper cut-off for accounts receivable is achieved, cash received is deposited in a timely manner and that payments received and credit memos issued should be matched against appropriate invoices and differences investigated and reconciled on a timely basis .

STATUS AS OF JUNE 30, 2007:

Implemented

FEDERAL AWARD REPORTING

RECOMMENDATION:

In FY 2003, we recommend that the County modify its procedures to classify current year revenues to be based on the proper allocation to either federal or state revenue source object codes. By implementing such a procedure, this would streamline the reporting process required under OMB Circular A-133 and provide additional control over the presentation of the SEFA.

STATUS AS OF JUNE 30, 2007:

Partially Implemented.

We noted the County's current accounting system has limited capability in allowing the County to track both Federal and State funded expenditures that would allow for the compilation of the Schedule of Expenditures of Federal Awards through the Financial Accounting System using object based account codes. As a compensating control, on annual basis, the County sends each department a Single Audit Risk Assessment Questionnaire to facilitate capturing the total federal awards expended in each year. This data is captured and recorded in a data base maintained by the Internal Audit Division. The financial data is randomly tested for accuracy through the use of querying tools within the County Financial Accounting System. The County has represented that the Auditor/Controller-Recorder's Office will work with other County departments to re-evaluate the current procedures for future modifications. In addition the Auditor/Controller-Recorder's Office will continue the training classes for the departments on providing the necessary information for the preparation of the Schedule of Expenditures of Federal Awards.

NEW FINANCIAL REPORTING AND AUDITING STANDARD EFFECTIVE FOR FISCAL YEAR
2006-2007

INFORMATIONAL ONLY

GOVERNMENTAL ACCOUNTING STANDARD No. 48

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement addresses accounting and financial reporting standards for transactions where governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. This statement establishes criteria and reporting standards regarding the exchange as either a sale or collateralized borrowing, resulting in a liability. This statement is not effective until June 30, 2008.

GOVERNMENTAL ACCOUNTING STANDARD No. 49

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not effective until June 30, 2009.

GOVERNMENTAL ACCOUNTING STANDARD No. 50

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement is not effective until June 30, 2008.

GOVERNMENTAL ACCOUNTING STANDARD No. 51

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010.

GOVERNMENTAL ACCOUNTING STANDARD No. 52

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of endowments. It results in property held for similar purposes by comparable entities being reported in the same manner. Reporting land and other real estate held as investments at fair value enhances users' ability to meaningfully evaluate an entity's investment decisions and performance. This statement is not effective until June 30, 2010.

STATEMENT ON AUDITING STANDARDS No. 104—No. 111

RISK ASSESSMENT STANDARDS

The AICPA's Auditing Standards Board (ASB) has issued eight Statements on Auditing Standards (SAS) relating to the assessment of risk in an audit of financial statements:

- SAS No. 104, *Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures ("Due Professional Care in the Performance of Work")*
- SAS No. 105, *Amendment to Statement on Auditing Standards No. 95, Generally*
- Accepted Auditing Standards
- SAS No. 106, *Audit Evidence*
- SAS No. 107, *Audit Risk and Materiality in Conducting an Audit*
- SAS No. 108, *Planning and Supervision*
- SAS No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- SAS No. 110, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*
- SAS No. 111, *Amendment to Statement on Auditing Standards No. 39, Audit Sampling*

These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision, the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit.

The primary objective of these Statements is to enhance auditors' application of the audit risk model in practice by specifying, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
- More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.
- Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks.

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In developing these Statements, the ASB worked in concert with the International Auditing and Assurance Standards Board of the International Federation of Accountants and, therefore, the project was representative of the effort among standard-setters to promote the convergence and acceptance of an international set of auditing standards. Finally, the Statements represent part of the ASB's ongoing effort to develop stronger and more definitive auditing standards that are intended to enhance auditor performance and thereby to improve audit effectiveness.

The Statements will be effective for audits of financial statements for periods beginning on or after December 15, 2006. Early adoption is permitted.

We expect these additional procedures to increase audit time slightly and require additional time of County personnel.

STATEMENT ON AUDITING STANDARDS No. 114

THE AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

This standard requires that we communicate with those charged with governance regarding the planning and conclusion of the audit. This communication can be made to the Board, Audit Committee or those delegated by the Board to provide oversight of the audit. (Applicable to audits conducted in accordance with generally accepted auditing standards [GAAS])

The Statement will be effective for audits of financial statements for periods beginning on or after December 15, 2006. Early adoption is permitted.

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the County gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Board of Supervisors, Audit Committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Vawter, Tine, Day & Co., LLP

Rancho Cucamonga, California
November 30, 2007